IDAHO PUBLIC UTILITIES COMMISSION

Cecil D. Andrus, Governor

Statehouse, Boise, Idaho 83720-6000

Marsha H. Smith, President
Dean J. (Joe) Miller, Commissioner
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March 9, 1993

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Donna Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, D.C. 20554

RE: In the Matter of Simplification of the Depreciation Prescription Process, CC Docket No. 92-296.

Dear Ms. Searcy:

Enclosed please find an original and nine copies of Comments of the Idaho Public Utilities Commission. An extra copy is also enclosed with a stamped self-addressed envelope; please date, stamp and return.

Copies of these comments have also been sent to the Downtown Copy Center, the Accounting and Audits Division and to J. Bradford Ramsay, Deputy Assistant General Counsel at NARUC. Please contact me should you have any questions concerning this matter.

Sincerely,

Stephanie Miller

Stephanie Miller
Director of Utilities

Enclosures

cc: Parties of Record

SM:gdk/2802

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FEDERAL COMMUNICATIONS COMMISSION
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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

IN THE MATTER OF SIMPLIFICATION OF THE DEPRECIATION PRESCRIPTION PROCESS.	))))))	**CC DOCKET NO. 92-296**

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COMMENTS OF THE IDAHO PUBLIC UTILITIES COMMISSION

1. On December 29, 1992 the Federal Communications Commission (FCC) released a Notice of Proposed Rulemaking (NPRM) in this docket requesting comments from interested parties on simplification of the depreciation prescription process. Comments are to be filed on or before March 10, 1993 and reply comments on or before April 13, 1993. The Idaho Public Utilities Commission (IPUC) hereby respectfully submits its comments in this matter. The IPUC is the agency of the State of Idaho statutorily charged with setting depreciation rates for telephone corporations in Idaho.

2. In this NPRM the FCC describes the depreciation prescription process, including the depreciation formula and parameters it now uses to determine depreciation rates by plant account for individual carriers. Generally, carrier-specific rates are prescribed on a triennial basis and result from meetings held between depreciation experts from the carrier, FCC and State Commissions. The IPUC actively participates in the triennial three-way meetings. We believe the process is beneficial to both the FCC and IPUC, although the IPUC does not always agree with the FCC about final depreciation rates.

3. The FCC has expressed its concern that the current detailed process for determining depreciation rates developed in the 1940s may no longer be necessary under changing conditions in the telecommunications industry. Although it remains cognizant that any streamlined procedures adopted must be consistent with the Commission's statutory requirement to prescribe "the percentages of depreciation" carriers may charge to operations expense, the Commission expresses concern about the estimated $35-$50 million industry-wide cost of determining depreciation rates.

4. The IPUC agrees that simplification of the regulatory process is a desirable goal. We question, however, the need for or benefits of simplification in this area. The Commission has focused on the industry's estimated $35-50 million annual cost of determining depreciation rates. While it is a significant amount, it does not appear unreasonable in light of the importance of accurate depreciation rates to the industry. Compare the estimated cost of the process with the almost $264 billion investment in telecommunications plant and the annual depreciation expense of almost $20 billion. The $35-$50 million estimated cost is less than three-tenths of one percent of annual depreciation expense. We question how much can be saved by the simplification proposed in this NPRM and are interested to see the savings estimates that have been requested.

5. In its NPRM, the FCC has proposed and requested comment on four options for simplifying the determination of depreciation expense: the basic factor range option, the depreciation rate range option, the depreciation schedule option, and the price cap carrier option. Of these four options the IPUC prefers the basic factor range option.

The Basic Factors Range Option

6. This option would continue the use of the remaining-life formula to determine depreciation rates. It would establish ranges for the basic factors that determine essential parameters of the formula: future net salvage, projection life, and survivor curve. Carriers would then select future net salvage, projection lives, and survivor curves from the established ranges for each applicable account and would not be required to submit detailed analyses to support those choices.

7. The IPUC believes this to be the most reasonable of the four options. It is simple and the most accurate method proposed. The basic factor range option retains the use of the remaining-life formula that incorporates both the accumulated depreciation and the average remaining-life for each account. It effectively allows for true-up of any accumulated depreciation imbalance caused by past over- or under- depreciation accruals resulting from over or underestimating life and salvage values. This true-up mechanism essentially eliminates the need for amortization of reserve imbalances.

8. Comments have been requested on the tentative conclusion that separate industry-wide data for local exchange companies and interexchange carriers be used to establish basic factor ranges and on the appropriate width of the ranges. We agree that industry-wide data for the two groups including a statistical analysis of basic factors underlying currently-prescribed rates would initially be a reasonable approach for determining ranges. The suggestion to set the width of the range at one standard deviation above and below the average would include 68% of the data points and also appears reasonable.

9. The FCC questions whether it should establish basic factor ranges for all plant accounts and concludes that at this time it should not. We agree. This option should be used initially only for smaller investment and more stable plant accounts.

10. The IPUC agrees with the FCC that this option should be mandatory for all carriers on all applicable accounts. This option provides carriers great flexibility in the prescription of their depreciation rates. In cases where carriers' currently prescribed depreciation rates fall outside the established basic factor ranges, those carriers should be required to show cause why a waiver should be granted exempting them from using the basic factor ranges. Implementation of the new methodology for each carrier should occur at the time of its normal depreciation represcription. Finally, changes in basic factors should be allowed only during a triennial review.

11. The FCC currently allows the use of Equal Life Grouping (ELG) of assets first by vintage and then by life expectancy to determine the proper allocation of plant investment over plant life. The accuracy of ELG is highly dependent on the accuracy of the survival curve. Because under the proposed simplified depreciation process carriers may choose a survivor curve whether or not it most accurately reflects their account-specific data, ELG should no longer be used.

The Depreciation Rate Range Option

12. This option would establish a range of depreciation rates for each plant account. The remaining-life rate formula would no longer be used. Although a very simple method, the IPUC believes this simplicity would be gained by sacrificing accuracy. A good depreciation method accurately apportions costs over the useful life of assets, correcting that apportionment as better information is available. When passed through to customers this assigns costs equitably to customers for

whom those assets are used to provide service. This rate range option lacks a true-up mechanism and, therefore, could create reserve imbalances and result in intergenerational inequities among customers over time.

The Depreciation Schedule Option

13. Under this option, the FCC would establish a depreciation schedule using FCC-specified average service life, retirement pattern and salvage value for each applicable plant account. Carriers would apply the schedule to their investment by account. The FCC admits that although this option offers simplicity and depreciation expense certainty, it creates the greatest deviation from accuracy in matching allocation of costs with plant consumption. It would also require special and as yet unspecified treatment of embedded plant.

14. In our opinion this is not an acceptable option. Although reserve imbalances would not be permanent as they would under the rate range option, temporary imbalances result in shifting of costs from one time period to another and intergeneration inequities occur.

The Price Cap Carriers Option

15. Because depreciation expense is treated as an endogenous expense under price cap regulation, price cap carriers argue they should no longer be subject to the FCC's prescription of depreciation rates. Under this option carriers seeking depreciation rate changes would file current rates, proposed rates, and resulting changes in depreciation expense. Although public notice would be given, no supporting data would be required.

16. We agree with Commissioner Duggan's characterization of this option

as "regulation by robot." We certainly question whether the FCC would meet its statutory requirement to prescribe depreciation percentages under this option.

17. Even for carriers under price caps, prescribing accurate depreciation rates is essential. Although changes in depreciation expense do not directly affect rates, LECs must share earnings with their customers if earnings fall within a specified zone. While changes in depreciation expense may not directly affect the price cap index, such expenses may affect the sharing zone, and carriers have an incentive to manipulate depreciation expenses to avoid the obligation to share.

Summary

The IPUC concurs with the FCC desire to reduce administrative burdens and costs of the regulatory process. We try to do the same in Idaho whenever possible. We are aware, however, of our responsibilities in determining just and reasonable rates. We urge the FCC to remember its obligations under the Communications Act and resist calls upon it to become "regulatory robots." It should weigh carefully the trade-offs embodied in this NPRM between regulatory simplicity and accuracy in determining carriers' single largest expense item. We believe the current process works well and is not excessively costly, we urge its continuation. If the FCC is convinced the process must be changed, we recommend the basic factor range option.

Respectfully submitted this 9th day of March 1993.

MARSHA H. SMITH, PRESIDENT

DEAN J. MILLER, COMMISSIONER

RALPH NELSON, COMMISSIONER

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SM:gdk/2798

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT on this 9th day of March 1993, I served a true and correct copy of COMMENTS, in Docket No. 92-296, to each of the following:

Donna Searcy
Secretary
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Washington, D.C. 20554

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Glenda D. Koch
Secretary

gdk/2799